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July 9, 2012

***VIA ELECTRONIC FILING AND
OVERNIGHT DELIVERY FOR CONFIDENTIAL VERSION***

Ms. Jocelyn Boyd
Chief Clerk and Administrator
Public Service Commission of South Carolina
Synergy Business Park, Saluda Building
101 Executive Center Drive
Columbia, SC 29210

**RE: Power Sales Agreement between Duke Energy Carolinas, LLC and Cherokee
County Cogeneration Partners, LLC
Docket No. _____**

Dear Ms. Boyd:

Pursuant to Public Service Commission of South Carolina (the "Commission") Order Nos. 81-214 and 85-347, Duke Energy Carolinas, LLC ("Duke Energy Carolinas" or the "Company"), along with Cherokee County Cogeneration Partners, LLC ("Cherokee" or "Seller") (collectively, the "Parties"), hereby submits the enclosed Power Sales Agreement, executed by the Company and Cherokee on June 29, 2012 (the "Agreement") for the Commission's review and respectfully request that the Agreement be accepted by the Commission for filing as the terms of the Agreement comply with the intent of the Public Utility Regulatory Policies Act of 1978 ("PURPA") and the provisions of the Commission's Orders referenced above.

The Company respectfully requests that it be permitted to file the confidential version of the Agreement under seal and maintained as confidential pursuant to Order No. 2005-226, "Order Requiring Designation of Confidential Materials." The Agreement contains proprietary and commercially sensitive pricing information that, if disclosed, could adversely affect the Company's ability to provide least cost resources for its customers. As such, Duke Energy Carolinas requests that the Commission treat this information as confidential and protect it from public disclosure.

The Company respectfully requests that the Commission grant its request for confidential treatment pursuant to 26 S.C. Code Ann. Regs. 103-804(S)(2)(Supp. 2010). A copy of the public version of the Agreement is being filed electronically and a copy of the confidential version of the Agreement is being submitted separately via overnight delivery to the Commission and the Office of Regulatory Staff under seal.

Cherokee is a limited liability company existing under the laws of the State of Delaware and is an indirect wholly-owned subsidiary of LS Power. Duke Energy Carolinas is a limited liability company existing under the laws of the State of North Carolina with its principal offices in Charlotte, North Carolina. Among other things, the Company provides electric service to retail customers in the State of South Carolina, which subjects such operations to the jurisdiction of the Commission as an "electrical utility," pursuant to S.C. Code Ann. § 58-27-10, et seq.

Cherokee currently owns, operates and maintains a natural gas-fueled combined-cycle electric cogeneration facility in the vicinity of Gaffney, South Carolina (the "Facility"). The Facility is a qualifying facility ("QF") under the rules and regulations of the Federal Energy Regulatory Commission ("FERC"), promulgated pursuant to the provisions of Section 210 of PURPA, 16 U.S.C. § 2601, et seq. The Facility has an installed generating capacity of approximately 96 megawatts (nameplate rating) and Cherokee received a certificate of environmental compatibility and public convenience and necessity to construct the Facility from this Commission, pursuant to S.C. Code Ann. § 58-33-10 et seq., in Order No. 95-1128, issued in Docket No. 1995-628-E. Cherokee and Duke Energy Carolinas previously entered into a Large Generator Interconnection Agreement, dated January 1, 2011, which governs the interconnection of the Facility to the Company's transmission system.

Cherokee and Duke Energy Carolinas are parties to a Purchased Power Agreement dated August 26, 1994, as amended (the "Existing PPA"), under which Seller is selling to Duke Energy Carolinas capacity and energy from the Facility under the provisions of PURPA. The Commission approved the Existing PPA in its Order No. 95-26. The Existing PPA will terminate on June 30, 2013, and Cherokee desires to sell capacity and energy from the Facility to Duke Energy Carolinas after the termination of the Existing PPA under the provisions of PURPA.

As more fully set forth in the provisions of the Agreement, Cherokee will sell to Duke Energy Carolinas all the electric capacity associated with the Facility; and Duke Energy Carolinas shall purchase and pay for such capacity. Duke Energy Carolinas has the right to dispatch the Facility on a daily and intra-day basis and to receive the full energy output of the Facility. Duke Energy Carolinas shall purchase directly from third parties all the fuel required for the Facility. Thus, for energy delivered, Duke Energy Carolinas will pay an energy price, which comprises only a variable operations and maintenance ("O&M") price and a unit start price. The Agreement is for a term of seven and one-half (7.5) years. Cherokee will begin providing capacity to Duke Energy Carolinas under the Agreement on July 1, 2013. Duke has agreed to make payments to Cherokee under the structure set forth in Article 5, and as described in Attachment 2, of the Agreement. Cherokee and Duke Energy Carolinas have negotiated and agreed upon the terms and conditions of such sale set forth in the Agreement under the provisions of PURPA.

The Agreement is consistent with the intent of PURPA to encourage the development of qualifying facilities for cogeneration and the Agreement is consistent with the principles which this Commission has established in its orders implementing PURPA. *See* Order No. 81-214; Order No. 85-347; and Order No. 89-56 (all issued in Docket No. 80-251-E). Because the Agreement complies with existing law and complies with this Commission's requirements and policies, Duke Energy Carolinas submits that the terms of the Agreement are consistent with the

public interest. Duke Energy Carolinas therefore respectfully requests that the Commission accept the Agreement for filing and issue its order to that effect. *See* Commission Order No. 81-214 at 18-19, Section III, paragraphs 3-4 and Order No. 85-347 at 29-30, Section II, Part J, and at 35-36, Section III, paragraph 12.

At the request of Cherokee, Duke Energy Carolinas further requests that the Commission's review of this matter be expedited in the event there is no opposition to the Agreement on the part of the South Carolina Office of Regulatory Staff ("ORS"). In this regard, Duke Energy Carolinas is advised by Cherokee that it seeks expedited review in order to enable Cherokee to engage in necessary business planning associated with the expiration of the Existing PPA and the implementation of the Agreement in 2013.

By copy of this letter, the Company is also providing notice and the opportunity to review the Agreement to the ORS. Thank you for your attention to this matter and please let me know if you have any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Charles A. Castle', with a stylized flourish at the end.

Charles A. Castle

Enclosures

cc: Shannon Bowyer Hudson, ORS
John Flitter, ORS
John Staikos, LS Power